

August 12, 2024

Q1 FY25 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	BUY		BUY	
Target Price	420		420	
Sales (Rs. m)	22,285	25,556	21,633	24,149
% Chng.	3.0	5.8		
EBITDA (Rs. m)	4,158	5,199	3,938	4,673
% Chng.	5.6	11.3		
EPS (Rs.)	5.5	9.4	6.6	10.0
% Chng.	(16.4)	(6.0)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	16,944	19,121	22,285	25,556
EBITDA (Rs. m)	2,987	3,296	4,158	5,199
Margin (%)	17.6	17.2	18.7	20.3
PAT (Rs. m)	293	481	765	1,303
EPS (Rs.)	2.1	3.5	5.5	9.4
Gr. (%)	(171.7)	63.9	59.0	70.2
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	3.4	5.2	8.9	13.5
RoCE (%)	10.7	11.3	14.6	19.1
EV/Sales (x)	3.1	2.8	2.5	2.2
EV/EBITDA (x)	17.6	16.4	13.6	10.7
PE (x)	171.8	104.8	65.9	38.7
P/BV (x)	5.9	6.1	5.6	4.9

Key Data

HEAC.BO | HCG IN

52-W High / Low	Rs.401 / Rs.310
Sensex / Nifty	79,706 / 24,368
Market Cap	Rs.50bn/ \$ 601m
Shares Outstanding	139m
3M Av g. Daily Value	Rs.83.95m

Shareholding Pattern (%)

Promoter's	71.25
Foreign	3.95
Domestic Institution	10.90
Public & Others	13.90
Promoter Pledge (Rs bn)	1.11

Stock Performance (%)

	1M	6M	12M
Absolute	(2.8)	(1.6)	7.1
Relative	(2.0)	(11.6)	(11.3)

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Strong margin guidance

Quick Pointers:

- Guided EBITDA margins at 19-20% for FY25.
- Among emerging center-Kolkata has turned EBITDA positive

HealthCare Global Enterprises (HCG) Q1 consolidated EBITDA grew by 22% YoY (down 1% QoQ) to Rs. 909mn; in line with our estimates. We expect margins to improve further, as benefit of ramp up in occupancy across centers should aid better operating leverage along with scale up in new centers. The company's asset light approach with focus on partnering has made its business model more capital efficient and scalable, in our view. Our FY25/FY26 EBITDA stands increased by 6% and 11% as we factor in MG hospital acquisition while PAT stands reduced by 5% in FY26. We expect 26% EBITDA CAGR over FY24-26E. At CMP, the stock trades at 13x FY26E EV/EBITDA adjusted for rentals. Maintain 'BUY' rating with a TP of Rs 420/share valuing at 15x on FY26E EV/EBITDA.

In line EBITDA; new centers reported steady performance QoQ: HCG reported post IND AS EBITDA of Rs. 909mn; in line with our estimate. Adjusted for ESOP cost EBITDA came in at Rs929mn with OPM of 17.7%. Existing centers reported profitability with healthy EBITDA growth of 18% YoY to +Rs 1bn, while new center's (which would comprise of only Kolkata, Borivali and South Mumbai) EBITDA was at Rs 42mn with OPM at 8.8%. Consol margins was up by 120 bps YoY to 17.3% as some of new centers ramping up.

Strong ARPOB; Healthy revenue growth of 14% YoY to Rs 5.3bn, in line with our estimate. Existing centers grew by 14% YoY while new centers continue to see healthy ramp-up with revenue growth of 33% YoY. Milann centers revenue de-grew 12% YoY on account of discontinued operations of Delhi center. LINAC capacity utilization was at 65% vs 61% in Q4FY24 and 69% in Q1FY24; contributed 17% to the total revenues. ARPOB improved 12% YoY; 4% QoQ to Rs 44.3K per day as a result of reduction in ALOS to 1.98 days in Q1FY25 from 2.13 days. Overall occupancy improved to 65.6% vs 63.9% in Q4. Net debt was increased by Rs 554mn QoQ to Rs4.1bn.

Key con-call takeaways: (1) Capex stood at Rs. 800mn for Q1FY25; will continue to follow the same run rate for the rest of the quarters and largely pertaining to brownfield expansion. (2) **Vizag acquisition-** Mgmt guided combined market share of Vizag region to reach upto 46% post acquisition of MG hospital. Expect completion of total 85% acquisition (2 tranches) in MG hospital by FY26 end. The unit is already established as matured and with 35% margins reported in FY24. Currently reported Rs100mn of EBITDA in Q1. The unit have substantial leverage of superior infrastructure such as 2 LINAC, 1 PET CT, 1 Robotics Surgery System and a dedicated Bone Marrow Transplant (BMT) unit. (3) New centers- only three classified as emerging centers (Kolkata, Borivali and Colaba). During Q1 Kolkata has turned EBITDA positive to tune of Rs27mn with 73% YoY revenue growth. Colaba unit is likely to break even by FY25 end. Borivali unit continues to grow as mgmt. guided higher operational efficiency resulting from adding one more LINAC machine, robots and surgical talents. (4) Phase 2 of Ahmedabad has been ramping up well with OPD services been already shifted. (5) Increase in finance cost in Q4 as Rs2bn been added to RoU in Q1 (6) OPD footfalls improved 10% YoY. Overall revenue growth was largely driven by volumes and growth in ARPOB. (7) HCG discontinued its MSR center in Bangalore in Q1FY25. (8) International Business generated Rs200mn of revenues in Q1; highest ever quarterly run-rate (9) Expect tax rate to be in range of 30-32%. Guided OPM to tune of 19-20% in FY25.

Exhibit 1 : Q1FY25 Result Overview (Rs mn) – In line EBITDA; margins up by 120 bps YoY

Y/e March	1QFY25	1QFY24	YoY gr. (%)	4QFY24	QoQ gr. (%)
Net Sales	5,256	4,607	14.1	4,946	6.3
COGS	1,332	1,179	13.0	1,227	8.6
<i>% of Net Sales</i>	<i>25.3</i>	<i>25.6</i>		<i>24.8</i>	
Employee Cost	852	769	10.7	769	10.8
<i>% of Net Sales</i>	<i>16.2</i>	<i>16.7</i>		<i>15.5</i>	
Other Expenses	2,163	1,916	12.9	2,030	6.5
<i>% of Net Sales</i>	<i>41.2</i>	<i>41.6</i>		<i>41.0</i>	
Total	4,347	3,864	12.5	4,026	8.0
EBITDA	909	743	22.3	920	(1.2)
<i>Margins (%)</i>	<i>17.3</i>	<i>16.1</i>		<i>18.6</i>	
Other Income	88	24	264.0	51	74.5
Interest	337	256	31.9	268	25.6
Depreciation	470	410	14.6	460	2.2
PBT	190	102	NA	243	(21.7)
Tax	54	69	(22.0)	48	12.6
<i>Tax rate %</i>	<i>28.2</i>	<i>67.6</i>		<i>19.6</i>	
PAT	136	33	NA	195	(30.1)
Share in (loss)/profit of associate	(0)	4		1	
Minority Interest	16	(40)		22	
EO items	-	-		39	
Reported PAT	121	76	58.7	213	(43.2)

Source: Company, PL

Exhibit 2: Break up of revenues (Rs mn)- New centers reported revenue growth of ~14% YoY and 7% QoQ

Y/e March	1QFY25	1QFY24	YoY gr. (%)	4QFY24	QoQ gr. (%)
Existing cancer centers	4,637	4,085	13.5	4,330	7.1
<i>% of Net Sales</i>	<i>88.2</i>	<i>88.7</i>		<i>87.5</i>	
New centers	475	358	32.7	446	6.5
<i>% of Net Sales</i>	<i>9.0</i>	<i>7.8</i>		<i>9.0</i>	
Milann centers	144	164	(12.2)	170	(15.6)
<i>% of Net Sales</i>	<i>2.7</i>	<i>3.6</i>		<i>3.4</i>	
Total revenues	5,256	4,607	14.1	4,946	6.3

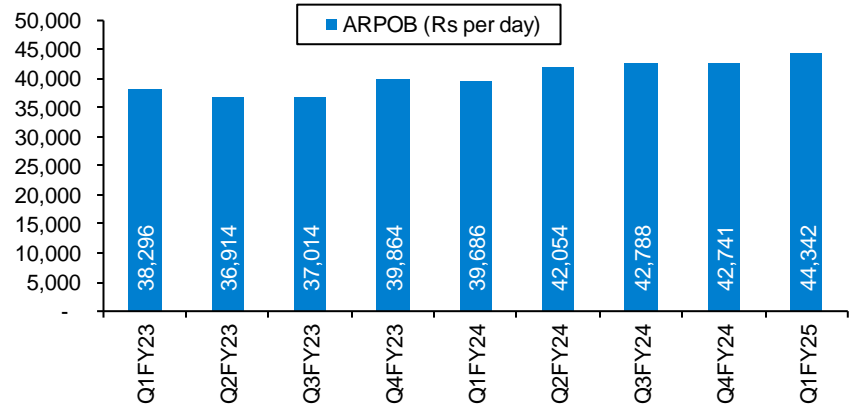
Source: Company, PL

Exhibit 3: Break up of EBITDA (Rs mn)- EBITDA growth of ~18% YoY in existing centers

Y/e March	1QFY25	1QFY24	YoY gr. (%)	4QFY24	QoQ gr. (%)
Existing centers	1,024	869	17.8	970	5.6
New centers	42	(12)	NA	50	(16.0)

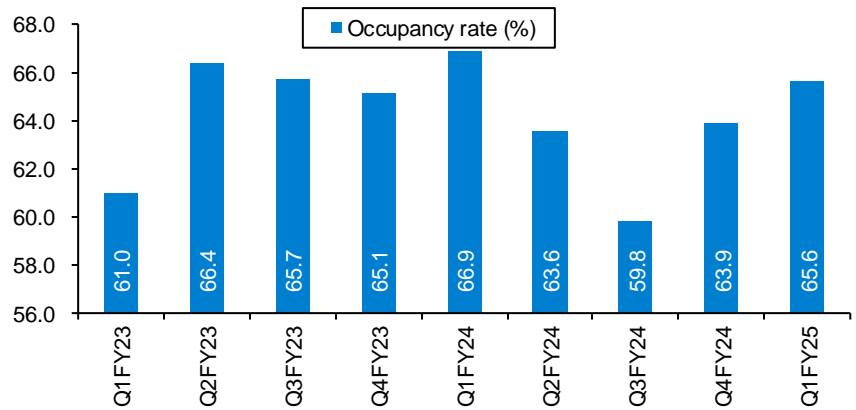
Source: Company, PL * (Note: Excl. Corporate Expenses; Reclassification of centers - Emerging centers now consist of 3 centers – South Mumbai, Borivali & Kolkata. All other centers are classified as Established centers).

Exhibit 4: ARPOB improved 12% YoY and 4% QoQ due to ALOS reduction



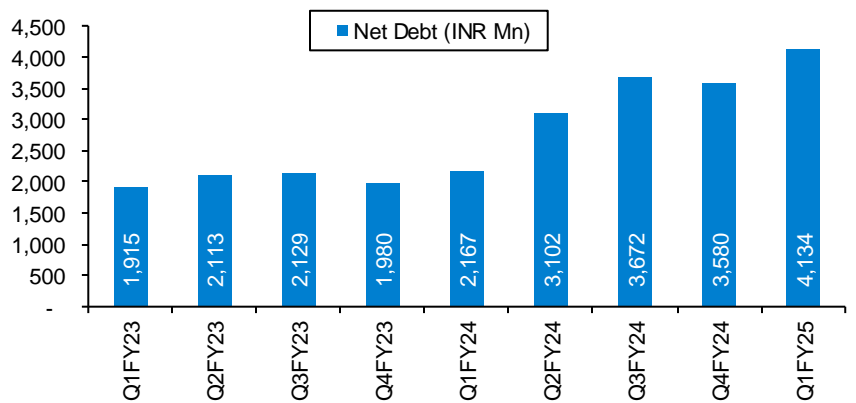
Source: Company, PL

Exhibit 5: Occupancy improved 170 bps QoQ to 65.6% in spite of seasonality



Source: Company, PL

Exhibit 6: Net debt inclined by Rs. 554mn QoQ



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	16,944	19,121	22,285	25,556
YoY gr. (%)	21.2	12.6	16.5	14.7
Cost of Goods Sold	4,241	4,754	5,559	6,377
Gross Profit	12,704	14,367	16,727	19,180
Margin (%)	75.0	75.1	75.1	75.0
Employee Cost	2,751	3,082	3,421	3,764
Other Expenses	6,966	7,989	9,147	10,217
EBITDA	2,987	3,296	4,158	5,199
YoY gr. (%)	25.5	10.3	26.2	25.0
Margin (%)	17.6	17.2	18.7	20.3
Depreciation and Amortization	1,635	1,744	1,918	2,071
EBIT	1,352	1,552	2,240	3,128
Margin (%)	8.0	8.1	10.1	12.2
Net Interest	1,035	1,087	1,460	1,500
Other Income	132	169	360	400
Profit Before Tax	449	634	1,140	2,028
Margin (%)	2.6	3.3	5.1	7.9
Total Tax	273	264	342	608
Effective tax rate (%)	60.7	41.6	30.0	30.0
Profit after tax	176	370	798	1,419
Minority interest	(117)	(72)	32	117
Share Profit from Associate	-	-	-	-
Adjusted PAT	293	481	765	1,303
YoY gr. (%)	(45.4)	64.1	59.0	70.2
Margin (%)	1.7	2.5	3.4	5.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	293	481	765	1,303
YoY gr. (%)	(45.4)	64.1	59.0	70.2
Margin (%)	1.7	2.5	3.4	5.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	293	481	765	1,303
Equity Shares O/s (m)	139	139	139	139
EPS (Rs)	2.1	3.5	5.5	9.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	22,315	25,698	29,298	31,298
Tangibles	22,315	25,698	29,298	31,298
Intangibles	-	-	-	-
Acc: Dep / Amortization	8,569	10,313	12,231	14,302
Tangibles	8,569	10,313	12,231	14,302
Intangibles	-	-	-	-
Net fixed assets	13,746	15,386	17,068	16,996
Tangibles	13,746	15,386	17,068	16,996
Intangibles	-	-	-	-
Capital Work In Progress	182	832	832	832
Goodwill	1,812	2,229	2,229	2,229
Non-Current Investments	68	70	70	70
Net Deferred tax assets	(71)	10	10	10
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	383	427	609	699
Trade receivables	3,025	2,940	3,838	4,402
Cash & Bank Balance	1,966	3,031	772	1,672
Other Current Assets	1,924	2,090	2,741	3,145
Total Assets	23,160	27,075	28,230	30,115
Equity				
Equity Share Capital	1,391	1,393	1,393	1,393
Other Equity	7,214	6,865	7,630	8,933
Total Networth	8,605	8,258	9,023	10,326
Non-Current Liabilities				
Long Term borrowings	3,993	6,728	6,728	6,728
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,485	2,811	3,168	3,634
Other current liabilities	7,865	8,825	8,825	8,825
Total Equity & Liabilities	23,160	27,075	28,230	30,115

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	176	370	798	1,419
Add. Depreciation	1,635	1,744	1,918	2,071
Add. Interest	1,035	1,087	1,460	1,500
Less Financial Other Income	132	169	360	400
Add. Other	-	-	-	-
Op. profit before WC changes	2,846	3,201	4,176	4,991
Net Changes-WC	(939)	(759)	(1,374)	(591)
Direct tax	-	-	-	-
Net cash from Op. activities	1,908	2,443	2,802	4,399
Capital expenditures	(1,332)	(1,857)	(3,600)	(2,000)
Interest / Dividend Income	-	-	-	-
Others	2	(401)	-	-
Net Cash from Inv. activities	(1,330)	(2,257)	(3,600)	(2,000)
Issue of share cap. / premium	9	(403)	-	-
Debt changes	(1,008)	933	-	-
Dividend paid	-	-	-	-
Interest paid	(1,035)	(1,087)	(1,460)	(1,500)
Others	840	1,032	-	-
Net cash from Fin. activities	(1,194)	476	(1,460)	(1,500)
Net change in cash	(617)	661	(2,258)	899
Free Cash Flow	575	586	(798)	2,399

Source: Company Data, PL Research

Key Financial Metrics

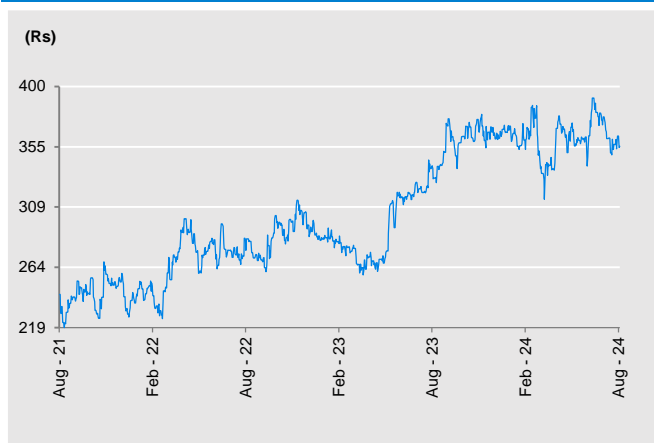
Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	2.1	3.5	5.5	9.4
CEPS	13.9	16.0	19.3	24.2
BVPS	61.9	59.3	64.8	74.1
FCF	4.1	4.2	(5.7)	17.2
DPS	-	-	-	-
Return Ratio(%)				
RoCE	10.7	11.3	14.6	19.1
ROIC	6.4	6.5	8.2	11.0
RoE	3.4	5.2	8.9	13.5
Balance Sheet				
Net Debt : Equity (x)	0.2	0.4	0.7	0.5
Net Working Capital (Days)	20	11	21	21
Valuation(x)				
PER	171.8	104.8	65.9	38.7
P/B	5.9	6.1	5.6	4.9
P/CEPS	26.1	22.7	18.8	15.0
EV/EBITDA	17.6	16.4	13.6	10.7
EV/Sales	3.1	2.8	2.5	2.2
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Net Revenue	4,869	4,699	4,946	5,256
YoY gr. (%)	15.9	10.6	12.0	14.1
Raw Material Expenses	1,209	1,139	1,227	1,332
Gross Profit	3,661	3,560	3,719	3,924
Margin (%)	75.2	75.8	75.2	74.7
EBITDA	846	786	920	909
YoY gr. (%)	13.3	4.1	20.6	22.3
Margin (%)	17.4	16.7	18.6	17.3
Depreciation / Depletion	432	442	460	470
EBIT	414	345	461	439
Margin (%)	8.5	7.3	9.3	8.4
Net Interest	269	295	268	337
Other Income	34	61	51	88
Profit before Tax	179	111	243	190
Margin (%)	3.7	2.4	4.9	3.6
Total Tax	71	76	48	54
Effective tax rate (%)	39.8	68.9	19.6	28.2
Profit after Tax	108	34	195	136
Minority interest	(28)	(23)	22	16
Share Profit from Associates	-	-	1	-
Adjusted PAT	136	57	213	121
YoY gr. (%)	83.9	(24.5)	154.0	58.7
Margin (%)	2.8	1.2	4.3	2.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	136	57	213	121
YoY gr. (%)	83.9	(24.5)	154.0	58.7
Margin (%)	2.8	1.2	4.3	2.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	136	57	213	121
Av g. Shares O/s (m)	139	139	139	139
EPS (Rs)	1.0	0.4	1.5	0.9

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-24	BUY	420	377
2	31-May-24	BUY	420	358
3	08-Apr-24	BUY	420	368
4	12-Feb-24	BUY	420	367
5	08-Jan-24	BUY	420	371
6	10-Nov-23	BUY	420	374
7	07-Oct-23	BUY	385	361

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	7,050	6,335
2	Aster DM Healthcare	BUY	400	368
3	Aurobindo Pharma	Accumulate	1,300	1,304
4	Cipla	Accumulate	1,680	1,575
5	Divi's Laboratories	Accumulate	5,000	4,991
6	Dr. Reddy's Laboratories	Reduce	6,000	6,879
7	Eris Lifesciences	BUY	1,250	1,128
8	Fortis Healthcare	BUY	515	460
9	Glenmark Pharmaceuticals	Reduce	570	1,017
10	HealthCare Global Enterprises	BUY	420	377
11	Indoco Remedies	Accumulate	320	322
12	Ipca Laboratories	Reduce	1,150	1,193
13	J.B. Chemicals & Pharmaceuticals	BUY	1,920	1,743
14	Jupiter Life Line Hospitals	BUY	1,360	1,330
15	Krishna Institute of Medical Sciences	BUY	2,200	2,135
16	Lupin	Hold	1,675	1,770
17	Max Healthcare Institute	BUY	975	916
18	Narayana Hrudayalaya	BUY	1,350	1,218
19	Sun Pharmaceutical Industries	BUY	1,885	1,715
20	Sunteck Realty	BUY	600	471
21	Torrent Pharmaceuticals	Accumulate	3,300	3,162
22	Zydus Lifesciences	Accumulate	1,130	1,162

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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